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## Performance Improvement Network

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**DON'T PANIC!**



### **Coping with the credit crunch:**

**A collection of articles from CIPFA PIN advisers and associates**

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## Foreword

What can one say about the credit crunch that has not been said already? In fact, most of us have lost count of the number of times we have been reminded by the BBC's Robert Peston that the world economy is facing its worst financial crisis in decades. Governments worldwide are throwing more and more taxpayers money into private banks, house prices are plunging at a record rate and the deep pessimism sweeping through the financial sector threatens hundreds of thousands of jobs, as businesses go bust through the domino effect. We can discuss the doom and gloom facing the economy until the end of time, but this will get us nowhere, except of course increased indigestion!

The real issue now is how public sector organisations and practitioners at local level start to confront the enormous challenges that lay ahead, in order to ensure that their communities come out of the current "toxic" tunnel with some credibility and stature.

It is understandable that public sector policy makers are currently focused on the short-term challenge of helping their organisations maintain a credible budget and helping families and businesses during these difficult times. However, it is also vital that they also think ahead, and set out the long-term strategic plan that will be required, as we eventually come out of the recession and hopefully build a new and better public sector landscape.

We are yet to see any coherent or well designed strategy that is guaranteed to get UK plc out of the current woes. Each day seems to bring a more complex set of new problems and any response is often superseded by new events. In any event, national policies may not necessarily fit with what is happening at the local level. As a result, public sector bodies will need to develop their own robust, achievable and deliverable strategies to confront the situation head-on, taking into account local, national and international factors.

This collection of articles, written by CIPFA PIN advisers and associates, sets out some of the issues that local public sector organisations will need to consider when developing their

strategies for dealing with the downturn. It encourages managers to avoid panicking and take a longer-term perspective, to ensure their organisations and communities cope well during the recession and are well-placed to thrive once it is over.

Note that PIN will be running a special event on coping with the credit crunch in London on 26 February 2009. The seminar will cover many of the issues highlighted in this compendium and discuss various practical steps organisations can take during the downturn. Further details and a booking form are available at:

[www.cipfanetworks.net/pin/events](http://www.cipfanetworks.net/pin/events).

I hope to see you on 26 February, but in the meantime I trust you will find this compendium useful.

Regards,

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## Managing in straightened times:

### The new shrinking world

Mohamed Hans

#### The pressure on public services

Many public bodies are facing attacks on their budget from a variety of fronts, not just as a result of their investments in “dodgy” foreign banks. This includes falling income from car parks as households reduce the number of visits to their local town centres, increasing costs to re-house record numbers of homeless people (something that is expected to spiral in 2009 as repossessions increase), reductions in income from land searches and licensing as house sales fall off and pubs and businesses close, and increasing demands for social services as more and more people fall below the poverty line.

The Chancellor’s demand for an additional £5 billion worth of savings on top of the £30 billion already planned for the 2008-11 CSR period will inevitably result in a big squeeze and further intensify these pressures. Yet, at a time when authorities may have no alternative but to cut services and jobs of all grades, demand for public services will increase at an alarming rate. There is a danger that if authorities are not careful and go into massive “cut mode”, it could result in long term damage to the capability of public services.

#### The Operational Efficiency Programme

The Operational Efficiency Programme, which is expected to report in time for the 2009 budget, is likely to identify the scope for further savings in the back office. These will be expected through:

- Improvements in benchmarking;
- Better management information and standardisation;
- More collaborative procurement and centralisation of the function (something that continues to be a major part of the Government’s modernisation agenda and the expanding role it will play in delivering savings over the next three years);

- Asset streamlining (which could see some landmark government owned assets like the QE2 Conference Centre and Ordnance Survey sold off), and;
- Efficiencies in the use of local government and NHS property portfolios.

The 2008 budget also made reference to the Public Value Programme (PVP), which will look at all major areas of public spending to identify where there is scope to improve value for money. Initial areas already identified for investigation include road-building, commissioning in the health sector, regeneration spending, value for money incentives in public sector budgeting frameworks, and the way in which major public sector IT projects are run and accounted for.

The PVP is a central attempt to crack down on inefficient building and procurement practices and is derived from the concept of Value Management which tries to optimise the function or purpose of services and organisations relative to cost.



It will be interesting to see how the big infrastructure spending plans will materialise and whether the anticipated savings from the PVP will be achievable, in light of the fact that the cost of borrowing for major projects is still prohibitively high. Traditional funders are suffering from cold feet, meaning that the preferred PFI and public private partnership routes are now unattractive ways of financing big public sector projects. In addition, the bank nationalisations now mean that PFI liabilities

will sit on the government balance sheet – something that PFI was originally developed to avoid. This could even result in the flagship £45 billion Building Schools for the Future modernisation programme being undermined.

#### **Action Points:**

- The public sector will need to identify alternative sources of borrowing for major public sector projects. This situation could be particularly disruptive to waste projects, where, even before the downturn, there were concerns about the lack of interest in obtaining funding. Instead of another “Winter of Discontent”, we could end up with years of misery. Councils should consider collaboration on waste management contracts to obtain better value for money and offer a better opportunity of delivering the right solution.
- IT projects could suffer as resources are prioritised in areas such as education and health. Public sector IT departments should develop alternative strategies and consider extending the lifecycle of all hardware and software purchases to their natural demise. Contracts should be reviewed to ensure that this can be done without any EU procurement infringement.
- The next few years could see opening up of shared call centre facilities to save on development and operational cost. This will require greater standardisation between public sector bodies, however it is something that could be achieved without dramatic re-engineering.

#### **Prompt payment to suppliers**

Whatever the economic climate, due to its very nature the public sector is always under intense scrutiny to operate efficiently and effectively. An important consideration is the way that payment are made and managed, especially to SMEs – considered to be the lifeblood of local economies. At the same time, security and fraud prevention is also very critical and incidences can be very damaging to organisations.



Late payment to SMEs can have a significant impact and means that, on average, small businesses are receiving payments between two and six months (in extreme situations) after work has been undertaken. This not only leads to reduced flexibility for businesses, but they in turn struggle to pay their suppliers on time and the cycle continues. With SMEs employing nearly 60% of the local area's private sector employees, prospects of businesses going bust could have a huge impact on council services, and end up costing authorities more money in the long term due to shrinking revenue from business rates and higher expenditure required on crime and disorder.

A survey carried out by the Forum of Private Business in August 2008 – before the downturn became a major story – revealed that the problem of late payment was even more serious than had been suspected. Indeed, 72% of respondents considered late payment to have a ‘serious’ or ‘very serious’ impact on their businesses. With the situation becoming more critical in the subsequent months, predictions are that matters will only get worse over the coming years.

In response, the Department for Business Enterprise and Regulatory Reform (BERR) announced on 21<sup>st</sup> October 2008 that:

*“... central Government has committed to paying businesses within ten days - and we're urgently speaking to the wider public sector to extend this commitment.”*

The ten-day target is currently a best practice guide designed as a direct response to the current economic position. A number of public sector organisations have voluntarily agreed to

introduce arrangements so that at least their local SMEs are paid within this timeframe, particularly where they request earlier payment to help with their cashflow and liquidity.

#### **Action Points:**

- Public sector bodies should review their standard payment terms and offer clarification on their policy as regards prompt payment to suppliers to help cashflow and liquidity.
- There is a choice of either moving BACS/ CHAPS payments forward from the standard 30 days to 10 days, or adopting commercial payment cards which can result in payments being made within 4 days! Even better, variable settlement terms using the GPC mean that although suppliers will receive earlier payment, public sector organisations will not be required to pay the purchasing card provider until up to 44 days after the purchase was made. As a result, public sector organisations can make savings of cashflow income of between 30 and 34 days if they use the GPC!
- Engage and encourage local SMEs to tender for public sector contracts. This will involve education and training and reviewing standing orders to increase relevant thresholds for requiring full tenders. Making more contracts available through Request for Quotation will help SMEs and Third Sector Organisations (TSOs) submit offers quickly, without it becoming too burdensome.
- Ensure staff follow payment procedures so that invoices are paid up quickly and there are no bottlenecks. Invoices should be passed to accounts payable as soon as possible.

#### **Returning confidence?**

As the underdog is always reminded – confidence plays a big part in your overall performance. There are reports that a number of public sector infrastructure and capital projects have been mothballed in recent months, whilst at the same time one is constantly reminded of the Government's

pledge to rejuvenate the economy with its "Keynesian" spending stimulus.



The extensive and unprecedented media focus on the downturn has led to housing and regeneration practitioners in authorities up and down the country reaching for the blood pressure pills. There is now an acknowledgment of the need to be more cautious before the demolition experts arrive and look at the bigger picture and not just focus on local regeneration ambitions.

Public sector organisations have also fallen victim to lower land and buildings values. Authorities in the past have sold plots of land or buildings from the public sector's £430 billion portfolio either as part of redevelopments, or to pay for improvements elsewhere. As prices fall, it becomes clear that authorities will either have to sell for less or sit on their assets and wait for better times. On the other hand, some authorities like Croydon Council have bucked the trend and are continuing with multi-million pound investments in new regeneration projects. In the face of the property downturn, this is regarded as a major achievement for the Council, which will develop 1,259 new homes in the city centre.

The problem with placing a moratorium on new projects (especially where the authority has spent several months preparing before the downturn hit) is that whilst it is correct that public sector authorities need to review plans and possibly delay going out to OJEU for the big projects, this sentiment leads only to stagnation, hesitancy and no new development.

Unless one subscribes to the apocalyptic thinking as to where this downturn is heading, an urgent sense of proportion is needed. There is no doubt that the recession will be nasty, but the UK will very probably avoid a major depression – fingers and toes crossed. Whilst some of our favourite banks may have disappeared, other institutions will – in time – start learning how to walk again, commence lending, and projects will start to be backed by new finance. After all, the banks are unlikely to keep the money under their mattress!

In the longer term, taking too much of a cautious approach could be to the disadvantage of authorities. This is due to the possibility that, when activity does restart, suppliers will not have the capacity to meet a sudden rush in demand for new projects and higher prices will result. Human nature is unlikely to change overnight and authorities will be reluctant to put their project in a holding queue until others have eaten the new cherries.

### Procurement process

Most public sector bodies will now be familiar with the requirement to follow the competitive dialogue procedure when it comes to major capital projects. This procedure has difficulties in itself without the need for an economic downturn. Procurements going through this route may or will suffer as the situation worsens, however more dynamic public sector organisations are reacting to the times and developing robust strategies to ensure that their projects remain on track.

In planning each initiative, these authorities have comprehensively assessed the construction and regeneration markets, paying due regard to market forces and gathering intelligent analysis. As a result, they know where the projects stood regionally, and crucially, who would be interested to invest hundreds of millions of pounds in their area. They have developed practical dialogue with national and international conglomerates to gather intelligence on how world markets are shaping and how they can impact locally. With clear 20-20 vision of the projects' potential economic impact, the authorities have taken

advantage of the competitive dialogue procedure (which allows open and frank discussions to take place with bidders) to arrive at a sensible decision. The procedure has also helped to keep their projects on time and without the risk of being abandoned.

### Action Points:

- Public sector bodies need to think outside the box and try to understand and visualise the future impact of planned projects.
- Organisations need to prioritise resources for large infrastructure project teams and develop commercial and contract management skills to stay one step ahead of the contractors.
- Clear communication links need to be established between procurement teams and senior directors in the corporate centre to keep them connected with issues that will emerge. Otherwise there will be unwelcome surprises and much indigestion.



### Changing market trends

With many private sector clients reducing their spending to maintain some levels of previous profitability, the estimated £130 billion public procurement pot is now becoming more and more attractive to suppliers of all sizes. I predict a reversal of trends where suppliers who decided to concentrate on the private sector market five years ago will return en masse, and there is a danger that this will result in over supply in the public sector market. This poses both threats and opportunities: increased competitive tension for contracts will theoretically result in better prices and greater innovation of supply; but it could also pose a threat to local suppliers who

may be priced out of the market by bigger national players. These larger companies will be prepared to cut down their margins for the guarantee of regular income to help with decreasing cash flows from other parts of their operations.



Another important lesson from the recession of the 1980s is the marked increase in disputes with suppliers, especially in the construction sector which can last for years. Suppliers may suddenly find themselves in a contract which they are struggling to complete in line with the tender bid, because of increased costs or difficulty in obtaining credit facilities. This is often one of the first hints that the industry is starting to suffer.

There is also expected to be an added impetus for the public sector to investigate outsourcing and shared services to bring down costs. This might end up as a desperate measure for some, as senior management posts are slashed leaving the authority no alternative but to hand over running of services to third parties. Some authorities are even considering a radical change and moving more towards becoming a commissioning hub with all services being contracted out to other public bodies, the private and voluntary sector.

#### **Action Points:**

- Review standard terms and conditions and ensure the risk exposure of the organisation is reduced or eliminated. Authorities are now in a position where they can make their terms and conditions much tougher, as suppliers will be prepared to sign up to more onerous terms in these

uncertain times without it materially affecting price.

- Review your organisation's dispute resolution clauses as downturns usually result in increased disputes with suppliers over every dot in the contract. Refer to specialist litigation experts internally or externally.
- For building projects, it is advisable that authorities consider fixed price contracts as opposed to construction management contracts. With the current difficulties in obtaining finance from banks and unpredictable supply chains, it is better to have prices fixed than rely on factors beyond your control just to come within budget.
- More robust and comprehensive financial checks should be carried out on all suppliers at pre-qualification stages to avoid being caught out by suppliers going bust overnight. Whilst this cannot be totally eliminated, the risks can be reduced.
- The European Commission has issued information that public sector bodies will be able to use the Accelerated Restricted Procedure due to the current economic climate until 2010 for all major public projects. Actual use of the procedure will depend on interpretation of the Public Contract Regulations 2006 and does not give a carte blanche to use in all cases. Specific legal advice should be sought as costly procurement challenges need to be avoided by authorities.

#### **Engagement with the Third Sector**

The impact of the recession on the third sector could potentially be even greater at a time when they were gearing up to play an increasing role in delivering more public services. Introduction of individual budgets and the personalisation of health and care services will impose a greater burden on commissioning and procurement officers. The more 'personal' approach of the third sector in these areas may prove to be more effective than traditional service provision. It is suggested that at least some third sector

organisations will experience severe financial difficulties and/or cease to exist, especially if their traditional contracts are axed or taken in-house by the public sector.

***Action Points:***

- Consider involving TSOs when drafting outline tender specifications
- Authorities should move to outcome based specifications rather than detailed specifications
- Only where there is a clearly defined business case should authorities widen the scale and scope of contracts, otherwise this can significantly prejudice the chances of TSOs and SMEs. Where there is no alternative, tenders should consider requirement of prime contractors sub contracting some elements to TSOs or SMEs.

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## Sustainable communities and the credit crunch:

### Will people (still) want to live there?

Peter Eckersley

#### Responding to the credit crunch

In recent weeks, discussions about the economic downturn have shifted away from focusing on how and why we got into this mess towards how organisations can manage during the recession and come out at the other end relatively unscathed.

As we know, a range of proposed solutions to the crisis are in train – including interest rates being reduced to an all-time low, an expansion of public works and the temporary cut in VAT. And the Audit Commission has suggested a number of ways that local government can deal with the crisis in its recent paper *Crunch Time* – for more on this see Brendan's article.

It's still too early to say which – if any – of these ideas will have any impact; indeed, perhaps we'll never know for certain whether the eventual recovery can be attributed to any particular initiative(s). However, what is less in doubt is the fact that public service organisations and individuals will need to tighten their belts during 2009 and beyond, as revenues fall and demands increase.

#### What do we mean by 'sustainability'?

Budgets associated with sustainability may be an easy target for cuts in the coming year, to ensure the books still balance and Council Tax increases are not too excessive. Sustainability is often seen as something that is 'nice to have', but it risks becoming less of a priority when times are hard. In addition, its broad, amorphous nature means that responsibility is shared between several departments and agencies – and so few organisations have someone to champion the need for spending in this area.

However, downgrading the importance of sustainability (and the resources allocated to it) is short-sighted, since it could have a significant long-term impact on local

communities. The term 'sustainability' can be difficult to pin down, but when it is interpreted in its widest sense, it becomes clear that it should remain a priority in the recession.

The classic explanation of sustainable development comes from the UN's Brundtland Report, which defined it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". In the dry words of Chair of the Sustainable Development Commission Jonathon Porritt, this means "treating the planet as somewhere we want to stay for a while."

Although this interpretation includes issues of global warming, it is important to recognise that sustainability covers a much wider agenda than climate change. Indeed, it has economic and social connotations, as well as environmental ones.



#### Sustainability at the community level

Speaking at a recent lecture organised by the Public Management and Policy Association, Julia Unwin, Director of the Joseph Rowntree Foundation, applied Porritt's definition to the local context. Thus we should seek to ensure that our communities are places where "we would want to stay for a while".

There are many communities in the UK where people would not necessarily choose to live, but many residents don't have an alternative. Most of those who are able to move away get out quickly, leaving behind those people who

are out of work, the elderly, infirm and disabled.

This vicious circle means that the community becomes increasingly less sustainable – and the recession will exacerbate the related problems of worklessness, poverty and crime even further. Once the economy begins to improve again, there is a risk that the people who live in these areas will become even more excluded from the rest of society, and have little or no confidence in the state's ability to support them where necessary. The knock-on effects in terms of societal breakdown and division are likely to be significant.

Therefore, local public service organisations should try to ensure that they design and develop communities in which people would want to live. This is particularly relevant in the context of the Government's pledge to build 3 million homes by 2020 – even if the collapse of the housing market has resulted in a short-term drop in the number of homes being built.



### What makes a community sustainable?

In April 2003, the Government asked Sir John Egan to set out a vision for the achievement of sustainable communities. His report points out that “places where people want to live – and that are sustainable – do not happen by chance. They are the product of visionary thinking and commitment by highly skilled civic and national leaders, developers and

professionals, with the full engagement and support of local partners and communities<sup>1</sup>.”

Egan identified seven key components that help to ensure communities are sustainable:

- *Governance* – effective and inclusive participation, representation and leadership
- *Transport and connectivity* – good transport services and communication linking people to jobs, schools, health and other services
- *Services* – a full range of appropriate, accessible public, private, community and voluntary services
- *Environmental* – providing places for people to live in an environmentally friendly way
- *Economy* – a flourishing and diverse local economy
- *Housing and architecture* – a quality built and natural environment
- *Social and Cultural* – vibrant, harmonious and inclusive communities.

Local public service providers can help to ensure that each of these characteristics is present in their communities – especially those that are currently in the planning and development stages. This is particularly the case in the new context of Local Area Agreements, Comprehensive Area Assessment and councils' emerging role as 'place-shapers'.

### Getting our own houses in order

Organisations should also adopt this long-term perspective in terms of their corporate behaviour. Adhering to principles such as whole-life costing, staff development, procuring from local private and third sector organisations and investing-to-save will pay dividends once the economy returns to growth. In addition, introducing a number of simple corporate policies can deliver double benefits, by being more environmentally sustainable whilst also saving money. An obvious example is ensuring computers are not left on standby at the end of the working day – something that can save significant sums, especially with energy prices being at record levels.

<sup>1</sup> See <http://www.communities.gov.uk/publications/communities/egareview>

Moreover, many would argue that the public sector has a moral duty to set a sustainable example. Although total carbon emissions are likely to fall over the next year or two (as they did during the recession of the early 1990s), they risk increasing again later on if changes are not made now. If public bodies are not seen to be taking serious action, their words would ring hollow when they try to persuade other organisations to do likewise.

Some behaviours and mindsets will need to change in order to ensure a more sustainable future. However, the recession may prove to be a useful catalyst for making these changes – provided managers take a longer-term, strategic, view. Organisations will need to look for more innovative ways of working in order to reduce costs, and this provides an opportunity to embed sustainability into re-designed goods and services from the outset.

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## Crunchie n: Confection full of holes

Brendan McCarron

### Dealing with the immediate impact

The Audit Commission's "Crunch Time<sup>2</sup>", which we mentioned in our last newsletter, identifies the pressures on councils as a result of the recession as: rising inflation, falling property prices, greater demand and limiting grant income. Only one in twenty of the (English?) council Chief Financial Officers responding (37% response or 145 individuals) think that their councils will not be able to cope (and, I guess, to be safe we should double that to one in ten). However, the really crucial observation is that it is 16 years since the last recession and "members and officers that have not recently faced an economic downturn will need to learn quickly from past experience". Unfortunately, most of that "past experience" is retired or otherwise occupied.

The report then goes into the detail of its survey results, which show fears about rising (energy) inflation, falling land and property prices and drops in income. In terms of inflation, the survey has obviously been overtaken by events (the data was collected in October and November 2008), as we now hear that the smart money (ha) thinks that inflation, including energy inflation, is likely to fall in 2009/10.

I particularly enjoyed the picture I reproduce at Figure 1. This shows growth forecasts from the Office of National Statistics (i.e. real as we are likely to get figures) mapped against those from the Bank of England for 2004 to late 2008. Note how the ONS dark line is consistently at the bottom of the Bank's range? Now, look at the Bank's forecast range for 2008 – 2010 and see how wide it is, in fact right at the lower end, Blighty does not come out of recession till 2010 and even then, the curve is convex, suggesting a flattening out. If the ONS is as consistent as it has been in the

<sup>2</sup> See <http://www.audit-commission.gov.uk/Products/NATIONAL-REPORT/891AD844-E222-431C-804D-9C48C89A33E0/CrunchTime19Dec08REP.pdf> for more details

past, it is likely that the Bank's lower estimate will come true and not the one that you immediately see if you just glance at the graph. This shows the green shoots of recovery are due, well, about now – but Business Minister Baroness Vadera is probably the only person who thinks that's happening.

### Looking further ahead

Chapter five of the report sets out the potential impact of the recession over the longer term.

The suggestions for what councils should do about all this (presumably the digested 16 years of "past experience") are crammed into pages 46 and 47. They can be summarised as: stimulate your local economy and maintain employment, and; keep making internal efficiencies, as per CRS2007. (Sorry, no prizes for economists pointing out the potential internal inconsistencies in those two suggestions).

The actual suggestions are:

- 1) Promote economic development, through:
  - Using LSPs to deliver benefits to an area
  - Using planning and development control powers
  - Partnering with RDAs to deliver regeneration projects
  - Using the "Well Being" power to its utmost.

The report also suggests that authorities should keep an eye on new powers and duties that will emerge in forthcoming Bills. These include the power to carry out economic reviews of their areas, deal with "worklessness" (that's funny, my Microsoft Word 2007 does not recognise "worklessness" as English) and get involved in FE for 16-19 year-olds again. Finally, on economic development, the role of councils as employers and purchasers is mentioned as significant. As a result, the warning from the government's "Tackling Worklessness", is repeated slavishly: 'the public sector as a whole should also be doing more in their role as significant local employers and procurer of services' (*sic*).

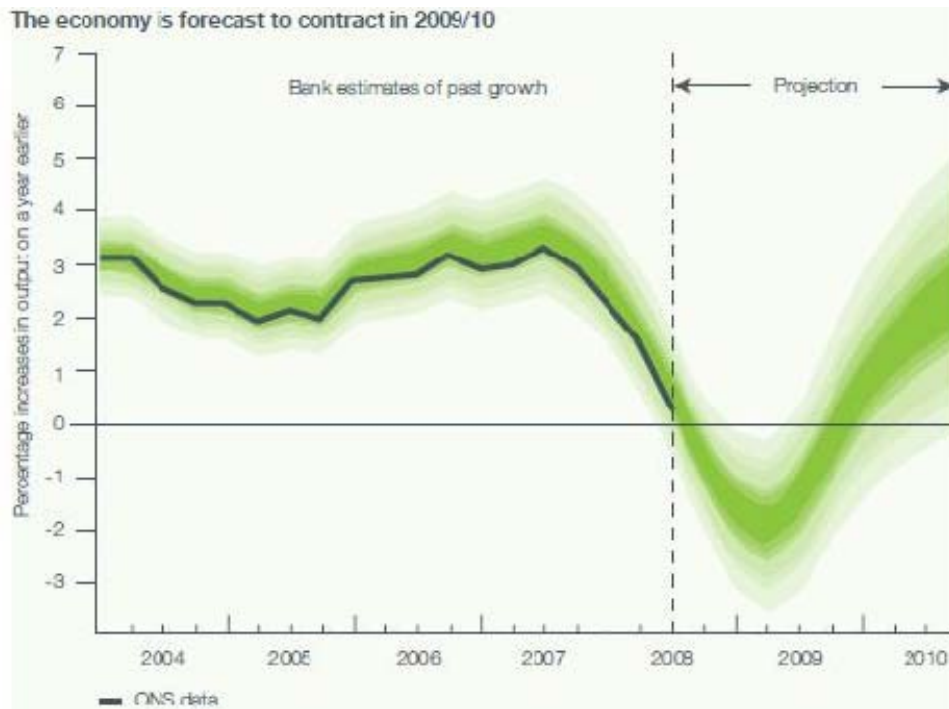


Figure 1 – The Bank of England's forecast circa November 2008 (Source: Audit Commission, "Crunch Time")

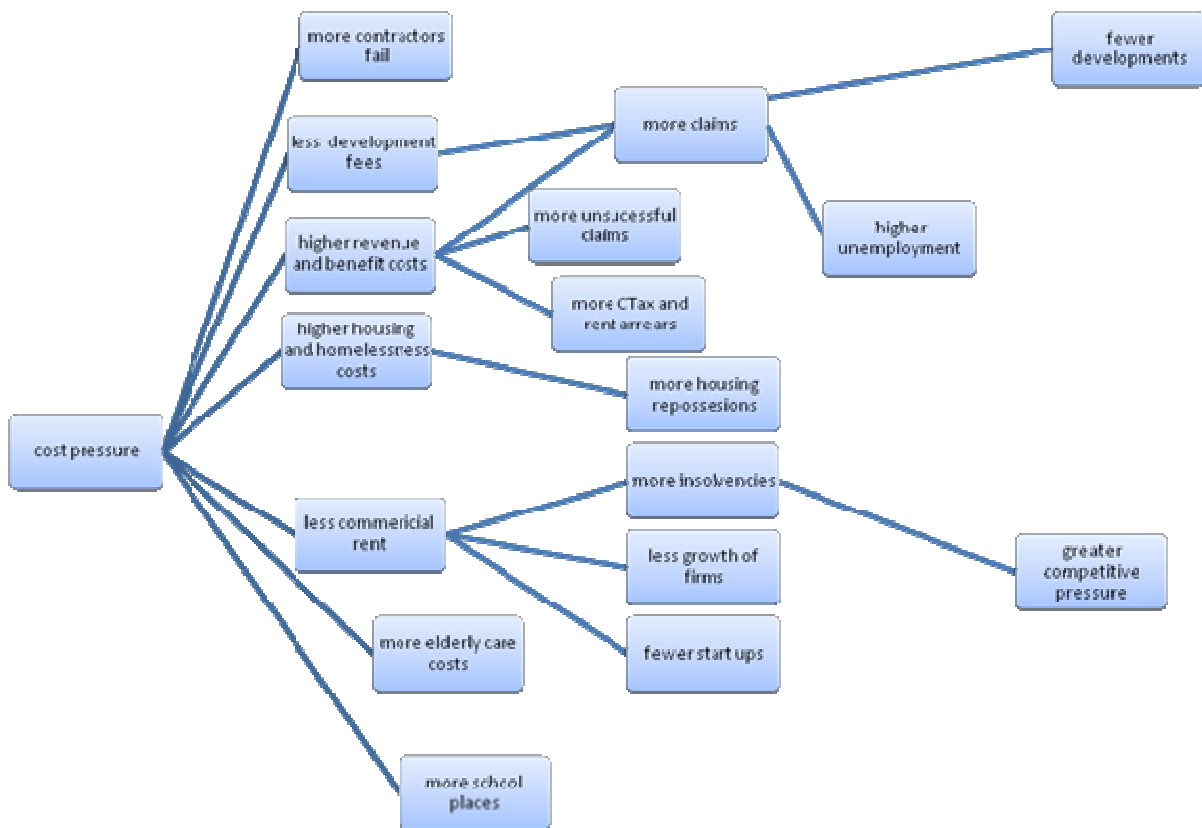


Figure 2: Sources of cost pressure

2) On efficiency, the report mentions that:

- Even though councils came up with £1bn of savings for the 2008 pre-budget report in November, they will need to go for £1.5bn as the Local Government Minister (I think they mean John Healey) suggested
- The Commission has published recent reports on competition, charging and trading, plus one on efficiency in the back-office. The latter points out that many councils have moved resource out from the centre (where one would have thought there was a greater requirement for talent so that authorities are better placed to strategically respond to the need for change) into the front line (so that the talent can ponder how to make queues get a bit shorter).

### So what should councils do?

The fact that the Audit Commission found no widespread panic amongst council Chief Financial Officers is not surprising. They are, mostly, quite well aware of the issues as the recession in the wider economy merely accelerates the long term fiscal pressures that they have had to cope with for several years. The wise council has already addressed the main questions:

- 1) What is the long term picture for local authority finance?
  - For the foreseeable future, demand will rise faster than income and therefore significant changes in the service mix and cost basis of services will have to be made.
- 2) What is the likely income level (from grants and other sources) that authorities will have available to fund services?
  - The medium term financial strategies of authorities and the 3 year settlements give some ability to forecast. It is unlikely that in real terms, like for like, income will rise from current levels.
- 3) From the perspective of stakeholders, what constitutes core local authority services,

and therefore what must be provided with the income available?

- New and unfunded duties are given to authorities all the time, and specific stakeholder needs change. This makes responding to them difficult, but not impossible. However, stakeholder needs are being clarified all the time as we get better, as a sector, at focusing outside the organisation. This should mean that we get better at understanding what each local area requires and how the authority itself can respond. This thinking should inform the community and strategic plans of all authorities.
- 4) How should the authority be structured to deliver the core services?
    - At the strategic level, we are already aware that we have to think hard about what the authority will look like if we are to deliver the services required with the money available. The answer in some cases is that it will be very similar to its current form, particularly if you are in a large single tier authority. However, there is an increasing move to bundle structures together, often for dogmatic political reasons, something that will affect the overall structure of the organisation. If you are subject to this pressure, you will already have been considering the partnerships, shared services and other strategic delivery options available to you. The recession will probably accelerate your thinking (though not necessarily, your doing, as the commercial support service and third sector market becomes more risky. You don't need me to tell you that, but if you want more information on this issue, see Mohamed's article).
    - At the operational level it is possible to by-pass the uncertainties about structure by focusing on the processes that are required to deliver services. Get your thinking and execution right here and the appropriate structural choices become more evident. Keep in mind the fact that in most local authority services there are few gains to

be made from scale economies (i.e. volume) and that you will get more improvements from better process design and management. The structural effect may be the same, and you may need a partner to help you get better at process design and management, but the strategic emphasis of the partnership will differ. For example, if you believe in scale economies you ruthlessly race for volume to reduce unit costs; if you know that improvements come from better processes you hire, train, manage and incentivise people in the partnership to improve processes.

- 5) How should the income be allocated amongst the core services?
- Strategic priorities identified in community and strategic plans need to be paid for and budgets prepared. Budget positions that are based on historical needs rather than predicted needs will have to be changed. Once again, we have spent the last 10 years getting better at aligning budgets and plans – though there is still some way to go. And, of course, wise financial directors will always be flexible in setting up the mechanisms for aligning budgets and plans to ensure there is something in reserve.

I am sure that most authorities have a similar set of strategic questions that they have been considering in response to CSR2004/2007 and the recession just changes some of the answers.

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## Procurement in a recession

### David Pratt

#### What do we do now?

As the economic downturn started to affect the British and global economies, it became apparent in meetings with clients that they had differing hopes and fears about how the new economic climate would affect their supply chains. These ranged from, *"I'm looking forward to the downturn I can now get revenge for those cost increases suppliers imposed"* to *"it's all going to be hopeless, we will lose most of our suppliers and we will be in trouble"...*

The reality is that, as more headline names announce falling sales and closures, procurement can panic as to what supply strategies they should adopt. Both these client responses are inappropriate. By understanding the differentiation across the supply portfolio, relationships can be managed to support your organisation through these turbulent times.

The current adverse business climate is not a new phenomenon: business has faced five full years of recession in the last four decades. These occurred in 1974, 75, 80, 81 and 1991. The problem for management now is that few of the people in today's business environment have faced the high risk of a recessive economic climate and the devastating effect that that climate can have on the supply of key components and services as markets contract.

Members of our team have witnessed the affects on supply lines in these conditions from the early seventies to the present day. With this experience behind them, the Redcap consultant team has developed a 10 point Focus Plan that underlines three business essentials: Cash, Customers (and Suppliers) and Communication. These are recognised by successful businesses as the key drivers to ensuring that an organisation maintains focus through difficult times.

The Redcap Focus Plan has been developed to provide Procurement Directors and Managers with a focus for their commitment to ensuring

the success of their organisation and the continued support of their key suppliers.

#### 1. *Understand the true picture*

- a. Get close to the board or executive to ensure that procurement fully understands the economic pressures on the business
- b. Procurement and category strategies will need to be reviewed and re-aligned, in order to ensure corporate, marketing, production, services and sales plans are supported
- c. Procurement needs to understand the dynamic nature of this new market environment and be able to respond as the forward requirement plan and revenue stream changes.

#### 2. *Act! Do not sit back*

- a. The worst thing that any procurement team can do is pretend nothing is happening and this "problem" will go away and not affect them. It is here to stay for potentially two years and will affect ALL procurement teams as suppliers fail and supply chain risks increase. This economic challenge or recession will not pass you by
- b. Review all contracts. Do they reflect the current need? Has the market costing moved? If so do current costs reflect these changes?
- c. Re-negotiate where appropriate
- d. Communicate with Suppliers. Keep them informed as to how your business is changing.



### 3. *Remember the importance of cashflow*

- a. Cash is a double edged sword for your business and your suppliers, so for both sides it needs to be managed
- b. The best policy is to pay on time – especially to SME suppliers, as they are the backbone of many supply chains
- c. If you are a public sector organisation, payment terms of 10 days is a Government aspiration. This needs to be enabled
- d. Be innovative. Payment by procurement card provides the supplier with cash in four days, whilst you pay the card processor on average 45 days later. This can be effective in terms of cashflow for the supplier and maintaining funds within your organisation
- e. Consider online payment systems, which operate in a similar way to procurement cards but provide a secure on-line payment scheme that includes VAT accounting – even for ad-hoc purchases
- f. Do not permit finance departments to withhold or delay payment without procurement authorisation
- g. If you have cashflow problems in your business, communicate with your suppliers and re-negotiate payment. DO NOT just stop or delay payment without communication.

### 4. *Retain a view of the future*

- a. Remember that all recessions come to an end. You need to maintain a vision of the future as you need to work with key suppliers through difficult times to ensure they will support you in future
- b. The end of a recession is normally accompanied by supply shortages as demand grows and outstrips supply capacity. You need to manage your supply chain to be ready for the “up-turn” and be able to meet your customers’ demands

- c. Do not damage your reputation to save money by “hammering” suppliers when they are down. Suppliers are people, they all have a good memory and when you need them in the future they may decide that you no longer fit in their “customer portfolio”.

### 5. *Focus on customer commitment*

- a. Understand the needs of your customers. How will procurement support those needs?
- b. Will the sales and marketing plan change in the downturn, and affect your demand by either increasing or decreasing requirements? Both demand movements need careful consideration for category strategies and communication with suppliers
- c. Ensure supplier performance by focusing on key deliverables and communicate good as well as poor performance.



### 6. *Focus on supplier relationships*

- a. Stay close to your core suppliers, communicate and understand their strategy changes as well as sharing yours. Work with them to develop long term views for when the upturn comes
- b. Manage, meet, measure and understand costs, as well as how the market changes affect your and your suppliers’ business
- c. Review contract and category commitments, especially if you have “firm” call off arrangements
- d. Be cautious of “cheap deals” that can be used by non-preferred suppliers to break your existing relationships

- e. Communicate with internal users to ensure they are aware of changes in procurement strategies and contract parameters.

### 7. *Innovate and seize opportunities*

- a. Support research and development in procurement. Economic pressure focuses management's minds and opens their thinking to new ideas, new materials, new sources and new markets
- b. If you need to significantly reduce supply costs, employ innovative thinking and investigate new opportunities to deliver new low cost solutions.

### 8. *Target cost reduction*

- a. Cutting prices is not the only answer. Review working capital and the total cost of operation
- b. Review existing contracts to ensure costs and service reflect current needs and market conditions
- c. Ensure all new contracts are placed competitively
- d. Work with your core suppliers to ensure continued support and service
- e. Work with departments to ensure planning if services, production or development are to be cut back
- f. Realise efficiency gains by process improvement: e-procurement, procure to pay processing, efficient payment, and planning systems
- g. Golden rule: Do not over-stock – manage core stock on a daily or weekly basis and ensure planning systems are checked and refreshed for reality and reflect market movements in demand
- h. Get involved in working capital management and ensure procurement fully understands demand push/pull and how it should respond. Do not rely on your ERP/materials system, which does not know what a recession is. You need

to apply good management practice in such a dynamic environment

- i. Dispose of "redundant, obsolete" stock and reduce the "tail" of slow moving, semi-dead items.

### 9. *Get the team onside and raise the game*

- a. Team motivation is essential. It is easy to get down and potentially depressed when services or sales slow
- b. Procurement teams need to be motivated and believe in the long term. An economic downturn can provide considerably more work and require fresh skills when negotiating, re-sourcing, challenging markets and proposing innovative solutions
- c. Do not cut training; it is now even more essential than in the "good times".

### 10. *Cut people last*

- a. Skilled staff are the greatest asset of any business
- b. Downturns are difficult times but procurement teams should be at the centre of demand and cost management programmes to ensure the supply chain is maintained
- c. Maintain core team members and the people you have invested in terms of skills and development.

This Focus Plan is aimed to get procurement people thinking and planning before it is too late. Further debate and discussion can be entered into with members of the Redcap team. The following members are available for further discussion on this important subject and to potentially provide assistance with supply chain planning:

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